

**Considerations
for
Michigan Energy Policy
and
Its Relationship to Electric Choice**

Presented to
Michigan House of Representatives
Energy Policy Committee
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Energy Michigan

Overview

In (a) developing and making a decision on a sensible energy policy for Michigan, and (b) in assessing the merits of related changes to Electric Choice, *four fundamental considerations affect the outcome.*

- I. **Timing** -- What is the optimal time for a decision?
- II. **Reliability** -- How does the present regional industry structure, including transmission, affect a total solution?
- III. **“Returning Customers”** -- Are they treated equitably as Michigan business customers?
- IV. **“Build”** -- What’s the size of the “build” issue?

This presentation will explain the four considerations.

MISO has been qualifying its 2014 “shortfall” report, and is presently redoing the study. The results of the new study, expected by early summer, should be considered.

I. Timing -- What is the assumed crisis?

The publication *MW Daily** reported a statement by MISO’s executive vice president of transmission and technology to MISO’s **Board of Directors** System Planning Committee meeting on October 22, 2014:

“In the short run, the notion that Michigan has to build 3,000 MW of capacity is not the impression I want to leave you with.”



***What is the “impression” that is prompting the legislature to take action on Electric Choice?
Is it different from what MISO is telling its Board of Directors?
Is it accurate? Realistic? Obsolete?***



The MISO 2014 study is based on a survey of LSEs. MISO is presently redoing the study and intends to update it on an annual basis. Results are expected in June 2015.



Best to get the MISO update and consider all options before taking action based on a wrong “impression.”

“no regrets” later

**MW Daily*, October 22, 2014. *Emphasis added.*

Since MISO “zones” are affected by the amount of transmission interconnection, a reliability policy in Michigan must consider transmission changes as well as generation changes.

II. Reliability -- Generation & Transmission – Regional since 2005

Collective reliability

Principle: Collective Reliability

- MISO dispatches all generation and uses all resources, collectively, to serve all customer load, collectively. This began in April, 2005. Thus, the concept that “our generation serves our customers” has been obsolete for 10 years, since 2005.
- As Michigan is a “seams” state, PJM generation is also used to balance supply and demand and can be re-dispatched to cost-effectively manage constraints.

Equal reliability

Ownership is not a factor in MISO reliability:

- For operational supply/demand reliability, it does not matter who owns or has the right to which resources, or which LSE (Load Serving Entity) serves which customer load.

For example, Consumers Energy could own 1,000 MW in Indiana, and Indianapolis Power & Light could own 1,000 MW in Michigan, and the effect on reliability is no different from CE owning the 1,000 MW in Michigan and IP&L owning the 1,000 MW in Indianapolis.

Transmission

An “energy independence” policy must consider transmission as well as generation:

- Locational requirements for capacity, which drive the degree and cost of energy independence, depend on transmission interconnections.
- MISO’s transmission import/export analysis shows Michigan Zone 7 has over 3,000 MWs of import capability, enabling generation from other MISO zones and external systems, such as PJM, to meet the demand requirements and reliably serve Michigan load.
- MISO is presently in the process of integrating its transmission and generation planning analyses related to supply/demand reliability and locational requirements.



An optimal policy for supply/demand reliability must include transmission planning as well as generation planning.

“no regrets” later

A new customer and a “returning” customer should face the same conditions and rates for service.

III. “Returning customers”

What “Choice” Meant

EC paid fair share

- Electric Choice customers paid for existing generation assets when they were full service utility customers. They paid for stranded costs. They paid for securitization of generation assets used only for full service customers, equally with full service customers, while on Electric Choice. They also currently pay a share of the uncollectible power supply charges and the inter-class rate subsidies for full service customers.

What they paid for

- In return for paying utilities more than \$2.2 billion plus interest over 15 years for stranded costs and securitization, all customers were given the right under law to choose either utility power supply service or competitive power supply service.

“Returning” Customers

Treat same as new

- Regarding resources to serve, a “returning” Electric Choice customer is no different from a new customer moving to Michigan. Further, an EC customer imposes no additional distribution costs.

No operational or financial impediments

- For 14 years, since 2001, the terms and rates for returning customers have been a non-issue, because they have been fair – operationally and financially – both to utilities and to returning customers.



Michigan should not deter new customers from moving to Michigan due to utilities imposing economic penalties or claiming they don't have the ability to serve.

With low or negative growth in Michigan, the “build” issue means “replacement.”

IV. “Build” -- Q: Who is going to build for Electric Choice customers?



What’s the size of this issue? How big is the “build”?

Considerations

Replacement given

- Retiring units must be replaced by new or existing resources deliverable to Michigan.

All suppliers equal

- MISO requires all suppliers – regulated utilities, cooperatives, municipalities, and competitive suppliers (Alternative Electric Suppliers) to own the rights to physical capacity sufficient to cover their forecasted loads plus a reserve margin.

Load covered

- Therefore, all current load, both utility and Electric Choice load, is covered by physical capacity, which capacity exists no matter who serves the customer.

Build for growth

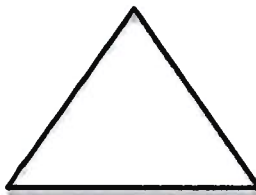
- **Consequently, the amount of “build” beyond replacement is determined by growth.**

Growth – how much?

- ***CE and DTE expect very little growth -- in fact, combined projected growth is negative. Therefore there is very little need for additional capacity.***

Low/Negative Growth

Current Load
Is Covered



“Build” = Need only to Replace
Retiring Generation

Summary of Perspectives

- I. Timing**
 - MISO is revising its supply/demand report in conjunction with states and LSEs.
 - ➔ Development of an energy policy should await and consider MISO's new supply/demand assessment.
- II. Reliability**
 - MISO is in the process of integrating its transmission planning and generation planning analyses. Regional reliability is a very complex situation. Transmission changes and generation changes must be assessed together.
 - ➔ Proposed Michigan laws affecting reliability should include both generation and transmission.
- III. "Returning Customers"**
 - Electric Choice customers have already paid for existing utility generation, before and after they switched to EC.
 - ➔ New and "returning" customers should be treated the same.
- IV. "Build"**
 - Michigan's projected load growth is negative.
 - ➔ No load growth means that only retiring generation needs to be replaced by newly built or previously uncommitted generation to maintain supply/demand reliability.

Appendix

“Build”



What’s the size of this issue? How big is the “build” ?

Is it large enough for the legislature to take action ?

Negative growth forecasted by utilities:

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Total</u>
<u>CE</u>						
Full Service Peak MW*	7,847	7,780	7,707	7,670	7,660	--
MW Growth	--	-67	-73	-37	-10	-187
Electric Choice Share at 10%	--	0	0	0	0	0
<u>DTE</u>						
Full Service Peak MW*	10,593	10,636	10,685	10,712	10,715	--
MW Growth	--	43	49	27	3	+122
Electric Choice Share at 10%	--	4.3	4.9	2.7	0.3	12.2
CE + DTE MW Growth	--	-24	-24	-10	-7	-65

* 2015 PSCR Plans, 5-year forecast



Does a negative growth of -65 MW over 5 years justify a complex IRP process for Michigan?

Does the legislature intend to eliminate Electric Choice because of 12 MW over 5 years?

“The Deal”

“The Deal” in 2000:

Customers

1. a. All customers get opportunity for Electric Choice.
b. Electric Choice customers pay stranded costs.
c. All customers pay securitization charges for specified generation assets.

Utilities

2. d. Utility collects stranded costs.
e. Utility collects securitization charges for specified generation assets.

Utility whole

- 1b, 1c, 2d, and 2e have been completed. The utility side of the deal was kept.

Legislative reversal

- **1a was terminated in 2008, replaced by 10% Cap.**